

**STATE OF WISCONSIN
DEPARTMENT OF EMPLOYEE TRUST FUNDS
801 West Badger Road
Madison, WI 53702**

CORRESPONDENCE MEMORANDUM

DATE: February 11, 2003

TO: Group Insurance Board

FROM: Thomas Korpady, Administrator
Insurance Services Division

SUBJECT: Contract extension for the third party administrator of the Income Continuation Insurance (ICI) and Long Term Disability Insurance (LTDI) programs

Staff recommends that the Board extend for one year the contract with CORE, Inc., for administration of the ICI and LTDI programs, with amendments to the contract incorporating new performance standards and financial incentives.

Background

The current contract provides for an initial three-year contract period with allowable extensions for two one-year periods. The initial three-year contract period concludes on 12/31/2003. This contract was awarded to CORE in June of 2000. This action was appealed by one of the competing vendors, and that appeal was denied by the Board at the August 2000 meeting. This appeal delayed the transition and implementation activities of the new vendor until a decision was reached and cut the scheduled transition time from six months to three months. Despite this, CORE did assume administrative responsibility for the programs on January 1, 2001.

During the first few years under this new contract period, CORE markedly improved the clinical handling of claims processing and the timeframe in which claims payments were issued in comparison to the previous administrator. We did, however, encounter several problems, primarily in the areas of customer service, management and processing of overpayments, and distribution of W2 forms. The overpayment processing and W2 problems were the direct result of the initial inability of CORE, Inc., to integrate their claims management system and their claims payment systems (DRMS and Workability). The customer service problems were more likely the result of the business culture approach of CORE, Inc.'s, Los Angeles office and were compounded by inadequate staffing and significant staff turnover.

A little over a year ago, CORE was purchased by the Fortis insurance group. Fortis installed a new management team and critically examined their operations. Fortis assigned new resources to speed the integration of CORE, DRMS and Workability systems and to transition the State's contract to their Burlington, Massachusetts office. The automation integration project was completed by August 1, 2002, and transition of our account to Burlington was completed on October 23, 2002. The number of staff assigned to the State's account in Burlington is approximately double that of the Los Angeles staff levels.

Discussion

In December, 2002, the department began internal discussions to develop our recommendation to the Board on whether to renew this contract or to conduct a bid process. If we had seen a continuation of the problems experienced during the first half of this contract period, the recommendation to re-bid would have been self-evident. However, with the completion of the systems integration project and the move to Burlington, we have noticed a major improvement in the service that CORE is providing. Using data from CORE the department, and from customer service surveys, the number of negative comments about CORE has dropped by two-thirds, the number of complaints has dropped to zero, and the number of cases referred to the Ombudsperson staff has dropped from 25 to 3 (see attached charts). In addition, overpayment processing and accuracy of claims payments issues have been almost fully resolved.

Although this turnaround was remarkable, we want to make sure it is sustained and therefore we requested guarantees from CORE that they were dedicated to provide us this new level of quality service. CORE's response was to propose restructuring their contract to incorporate stringent performance standards (see attached proposal) for all areas where we had experienced problems and difficulties in the past. For each of these standards, CORE proposed meaningful financial penalties that, if invoked, could result in the loss of up to 25%, or approximately \$500,000, of their administrative service charge.

Staff believes that the level of fees that CORE is willing to put at risk to guarantee the high quality of service we have seen over the past several months demonstrates a meaningful commitment by CORE to properly service our contract. We also believe that they would not have offered this amount if they were not sure they could meet these fairly demanding service levels. Because of this, we are optimistic that operation of the ICI and LTDI plans will be fairly smooth this coming year.

Conclusion

The new management at CORE has demonstrated not only a renewed commitment to our program, but also the ability to produce meaningful and measurable results. They have backed this up with an offer to maintain a high level of service by agreeing to financial penalties that are far in excess of those in any of our other contracts. It is unlikely that we could exact similar guarantees from a new bidder. It is also unlikely, based on our last bid process, that we could expect any significant savings in administrative service costs from a new vendor, and that we would likely face similar transition issues that could cause problems for our members. Because of this, staff feels that our best approach is to extend this contract for one of the allowed one-year extension periods, incorporating the proposed performance measures and guarantees. We would monitor CORE, performance during this period and report back to the Board on a regular basis.